

# Review of the Alabama Child Support Guidelines

Presentation to:

## **Advisory Committee On Child Support Guidelines And Enforcement**

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Jane Venohr, Ph.D. Economist/Research Associate

[jvenohr@centerforpolicyresearch.org](mailto:jvenohr@centerforpolicyresearch.org)

303-837-1555



# CPR's Role and Today's Objective

## Quadrennial Review of Guidelines

- Federal regulation (45 C.F.R. §302.56)

## CPR's Technical Assistance

- Updating schedule including the low-income adjustment/self-support reserve
- Analysis of case file data and labor market data

## Today's Objective

- Introduction to the economic basis and underlying assumptions of the existing schedule
- What could be updated/changed in schedule

## Will probably take 3 Meetings to Develop Schedule

- Low-income/self-support reserve/minimum order last step

# Federal Requirements to Analyze Data

**(h)** As part of the review of a State's child support guidelines required under paragraph (e) of this section, a State must:

(1) **Consider economic data on the cost of raising children, labor market data** (such as unemployment rates, employment rates, hours worked, and earnings) by occupation and skill-level for the State and local job markets, the impact of guidelines policies and amounts on custodial and noncustodial parents who have family incomes below 200 percent of the Federal poverty level, and factors that influence employment rates among noncustodial parents and compliance with child support orders;

(2) **Analyze case data**, gathered through sampling or other methods, on the application of and deviations from the child support guidelines, as well as the **rates of default and imputed child support orders and orders** determined using the low-income adjustment required under paragraph (c)(1)(ii) of this section. The analysis must also include a comparison of **payments on child support orders by case characteristics**, including whether the order was entered by default, based on imputed income, or determined using the low-income adjustment required under paragraph (c)(1)(ii). **The analysis of the data must be used in the State's review of the child support guidelines to ensure that deviations from the guidelines are limited and guideline amounts are appropriate based on criteria established by the State under paragraph (g)**; and

(3) Provide a meaningful opportunity for public input, including input from low-income custodial and noncustodial parents and their representatives. The State must also obtain the views and advice of the State child support agency funded under title IV–D of the Act.



# Major Data and Assumptions underlying Schedule

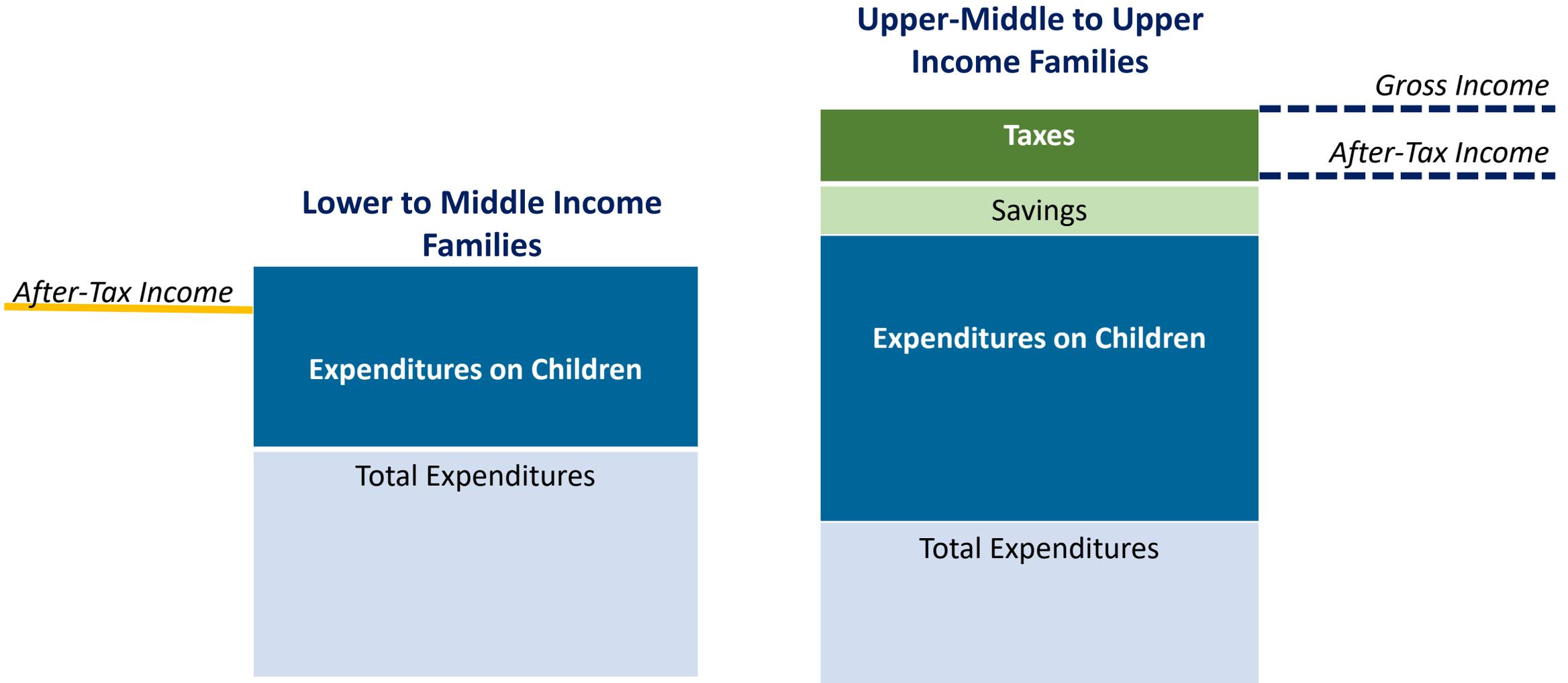
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# Child Support Schedules Are Part Economic Data and Part Policy

Underlying Data or Assumption	Basis of Existing Schedule	Updates/Alternatives
1. Guidelines model	Income shares	<ul style="list-style-type: none"> <li>41 states use income shares</li> <li>8 states use % of income</li> <li>3 states use Melson</li> <li>Other guidelines model</li> </ul>
2. Underlying Economic Study*	Betson-Rothbarth (2006)	<ul style="list-style-type: none"> <li>Betson-Rothbarth (2020)</li> <li>Rodgers-Rothbarth (2018)</li> <li>USDA (2017)</li> <li>Comanor (2016)</li> </ul>
3. Price levels	March 2007 price levels	June 2020 (25.6% increase)
4. Adjustment for Alabama's lower income/cost of living	Census data comparing U.S. and Alabama income distributions	<ul style="list-style-type: none"> <li>No adjustment</li> <li>Price parity (AL: 86.4%)</li> </ul>
5. Federal and State Taxes*	2014 federal and state income tax withholding formulas for single taxpayer	<ul style="list-style-type: none"> <li>2020 federal tax reform</li> <li>Assumptions other than single taxpayer</li> </ul>
6. Highest income	\$20,000/month gross combined	<ul style="list-style-type: none"> <li>Depends on study (\$16,000 - \$35,000 combined gross)</li> <li>Some states extrapolate to higher incomes</li> </ul>
7. Exclude childcare, child's health insurance premium & extraordinary medical expenses*	Excludes all but the first \$250 per child per year in ordinary, out-of-pocket medical expenses	<ul style="list-style-type: none"> <li>Retain assumption</li> <li>Exclude all</li> <li>Ohio approach</li> </ul>
8. Expenditures to net income ratio*	<ul style="list-style-type: none"> <li>Converts expenditures to net income using ratios from same families in CES</li> <li>Caps expenditures at 100%</li> </ul>	
9. Low-income adjustment/Self-support reserve and minimum order	Self-support reserve relating to 2007 fed poverty level incorporated into schedule and \$50 minimum order	Adjustment is layered on top of schedule, options to be addressed later

\*More detail on subsequent slides.

# Average Expenditures to After-Tax Income Ratios (See Row 7, slide 14)



# Updating for 2020 Federal and State Taxes (See Row 4, slide 14)

2020 IRS withholding formula	Method 1	Method 2	Method 3	Method 4*	Method 5	Method 6
<b>W-4 Year</b>	2019 and earlier and 2020 or later	2020 or later	2019 or earlier	2020 or later	2019 or earlier	Option of employer
<b>Subtraction from income</b>	Depends on year of W-4	None, std deduction built into tables	Allowances built into tables	None, std deduction built into tables	\$358 per month for each allowance claimed on W-4	
<b>% method tables or wage bracket tables</b>	Percentage method tables	Wage bracket tables	Wage bracket tables	Percentage method tables	Percentage method tables	
<b>Highest income considered in tables</b>	No limit	\$8,330 per month	\$8,410 per month	No limit	No limit	
<b>Frequency of payroll</b>	Annual	Monthly and others	Monthly and others	Monthly and others	Monthly and others	
<b>Filing status considered</b>						
<ul style="list-style-type: none"> <li>• Single</li> <li>• Married filing jointly</li> <li>• Married filing separately</li> <li>• Head of Household</li> </ul>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	

# Child's Health Care Cost (See Row 6, slide 14)

Schedule includes up to \$250 per child per year for ordinary, out-of-pocket medical expenses

## 2015 National Medical Expenditure Survey

- Average out-of-pocket medical per child = \$248/yr
  - Ever public insurance = \$63/yr
  - Ever private insurance = \$388/yr

Number of Alabama Children: 1,716,801

Number of Alabama Children Enrolled in CHIP: 97,450

Total Medicaid Enrollment in Alabama: 1,610,623

Percent of Children Enrolled in Medicaid and CHIP: 62% USA

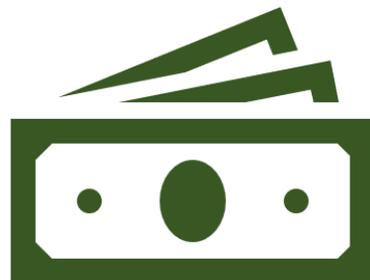
# Child's Health Care Cost: Alternative Approaches

- VA and CT include no health care costs in schedule
  - Advantage:
    - No assumption about the amount of ordinary out-of-pocket medical expenses is necessary
  - Disadvantage:
    - Parents must track ALL medical receipts and exchange them
- OH and MI include no health care costs in schedule but include an add-on in the worksheet for a standard amount
  - Advantages:
    - Can change amount without changing schedule
    - More flexibility on a case-by-case basis (e.g., don't add in Medicaid cases)
  - Disadvantages:
    - Adds a step
    - Still requires an assumption

# Ohio's Approach

	Parent A	Parent B	Combined
1. Annual Income	\$40,000	\$40,000	\$80,000
17. Percent of income	50%	50%	
18a. Basic child support obligation (annual)			\$20,000
23. Annual Cash Medical			\$388.70
24. Total Obligation			\$20,388.70
25. Each parent's share	\$10,194.35	\$10,194.35	

Cash Medical Obligation	
Number of Children	Annual Cash Medical Amount
1 child	\$388.70
2 children	\$777.40
3 children	\$1,166.10
4 children	\$1,554.80
5 children	\$1,943.50
6 children	\$2,332.20



# Analysis of Economic Data on the Cost of Raising Children

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# Studies of Child-Rearing Expenditures

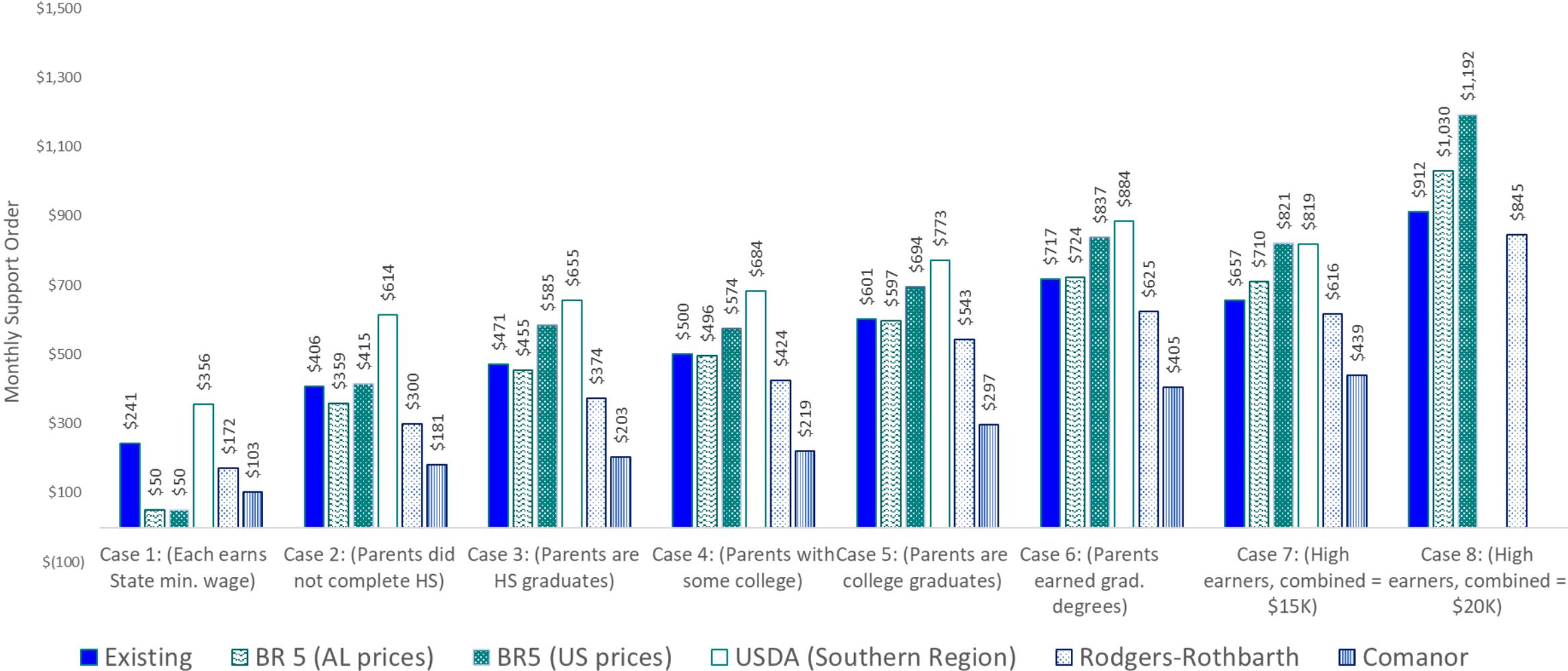
Study Name and CES Years	Study Year	Full Reference
Betson-Rothbarth 1 (BR1) CES: 1980-86	1990	David M. Betson (1990). <i>Alternative Estimates of the Cost of Children from the 1980-86 Consumer Expenditure Survey</i> , Report to U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, University of Wisconsin Institute for Research on Poverty, Madison, Wisconsin.
Lewin Report (compared methods)	1990	Lewin/ICF. (1990). <i>Estimates of Expenditures on Children and Child Support Guidelines</i> . Report to U.S. Department of Health and Human Services, Office of the Assist. Secretary for Planning and Evaluation. Virginia
Betson-Rothbarth 2 (BR2) CES: 1996-99	2001	Betson, David M. (2001). "Chapter 5: Parental Expenditures on Children." in Judicial Council of California, <i>Review of Statewide Uniform Child Support Guideline</i> . San Francisco, California
Betson-Rothbarth 3 (BR3) CES: 1998-2004	2006	David M. Betson (2006). "Appendix I: New Estimates of Child-Rearing Costs" in PSI, <i>State of Oregon Child Support Guidelines Review: Updated Obligation Scales and Other Considerations</i> , Report to State of Oregon, Policy Studies Inc., Denver, CO.
Betson-Rothbarth 4 (BR4) CES: 2004-09	2010	Betson, David M. (2010). "Appendix A: Parental Expenditures on Children." in Judicial Council of California, <i>Review of Statewide Uniform Child Support Guideline</i> . San Fran-cisco, California. Retrieved from: <a href="http://www.courts.ca.gov/partners/documents/2011SRL6aGuidelineReview.pdf">http://www.courts.ca.gov/partners/documents/2011SRL6aGuidelineReview.pdf</a>
Rodgers-Rothbarth/NJ CES: 2000-11	2012	New Jersey Child Support Institute (March 2013). <i>Quadrennial Review: Final Report, Institute for Families</i> , Rutgers, the State University of New Jersey, New Brunswick, NJ. Retrieved from: <a href="http://www.judiciary.state.nj.us/reports2013/F0_NJ+QuadrennialReview-Final_3.22.13_complete.pdf">http://www.judiciary.state.nj.us/reports2013/F0_NJ+QuadrennialReview-Final_3.22.13_complete.pdf</a>
USDA (CES: 2011-2015)	2017	Lino, Mark (2017). <i>Expenditures on Children by Families: 2015 Annual Report</i> . U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2015, Washington, D.C. <a href="http://www.cnpp.usda.gov/publications/crc/crc2013.pdf">http://www.cnpp.usda.gov/publications/crc/crc2013.pdf</a>
Rodgers-Rothbarth/Nat'l (2000-2015)	2018	Rodgers, William M. (2017) "Comparative Economic Analysis of Current Economic Research on Child-Rearing Expenditures." In Judicial Council of California, <i>Review of Statewide Uniform Child Support Guideline 2017</i> . San Francisco, CA. Retrieved from <a href="http://www.courts.ca.gov/documents/lr-2018-JC-review-of-statewide-CS-guideline-2017-Fam-4054a.pdf">http://www.courts.ca.gov/documents/lr-2018-JC-review-of-statewide-CS-guideline-2017-Fam-4054a.pdf</a> .
Comanor (CES: 2004-09)	2015	Comanor, William, Sarro, Mark, and Rogers, Mark. (2015). "The Monetary Cost of Raising Children." In (ed.) <i>Economic and Legal Issues in Competition, Intellectual Property, Bankruptcy, and the Cost of Raising Children</i> (Research in Law and Economics), Vol. 27). Emerald Group Publishing Limited, pp. 209–51
Betson-Rothbarth (BR5) CES: 2014-19	2020	Arizona

# AL 2018 Median Earnings for Workers Age 25 and Older

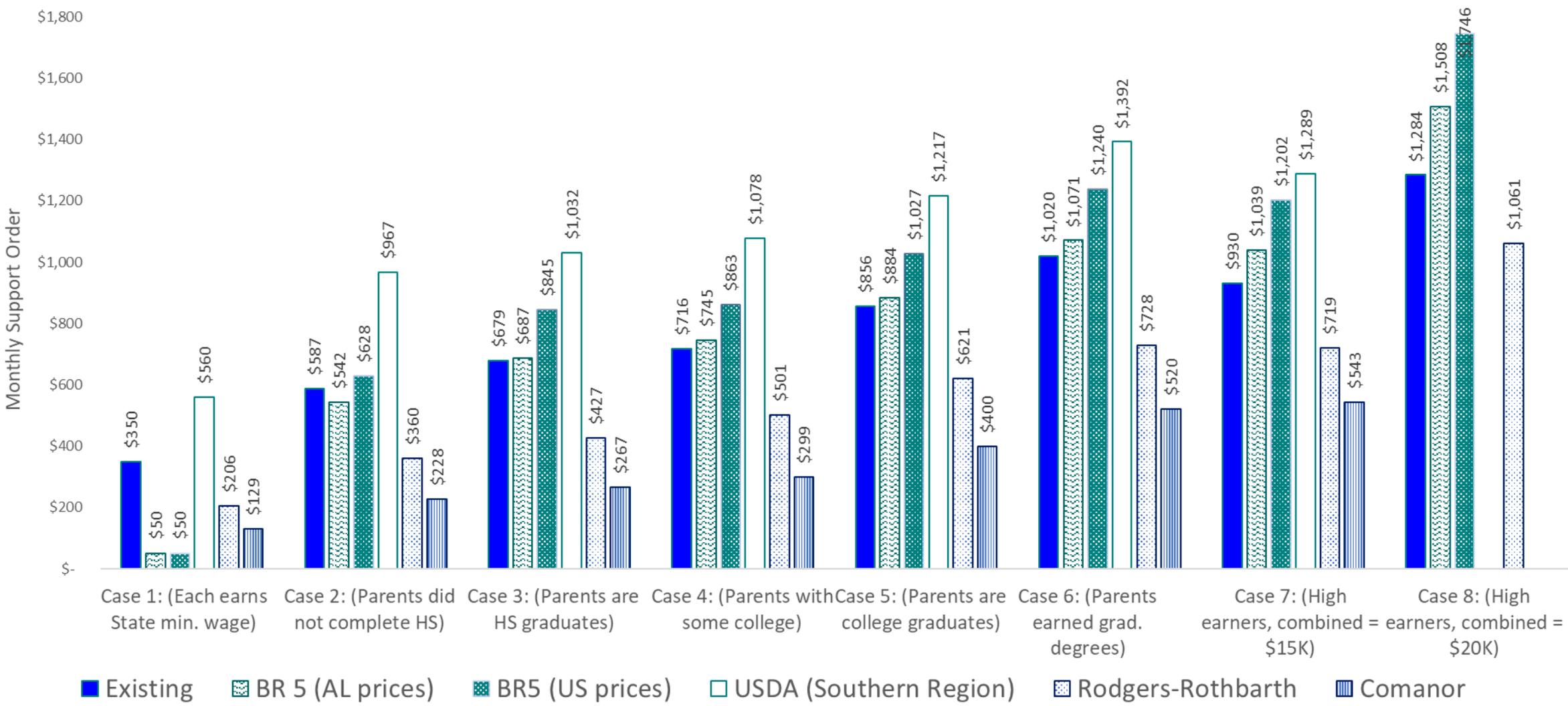
Highest Educational Attainment	Males	Females
1. Min. wage earners (\$7.25/hr @ 40 hrs)	\$ 1,257	\$1,257
2. Less than High School Degree	\$ 2,250	\$1,666
3. High School Degree or GED	\$ 2,779	\$2,156
4. Some College or Associate's Degree	\$ 3,547	\$2,619
5. Bachelor's Degree	\$ 5,232	\$3,653
6. Graduate or Professional Degree	\$ 6,796	\$4,635
7. High earners (combined = \$15,000)	\$ 7,500	\$7,500
8. High earners (combined = \$20,000)	\$12,000	\$8,000

Case scenarios: Male is parent owing support, female is parent receiving support, no other adjustment

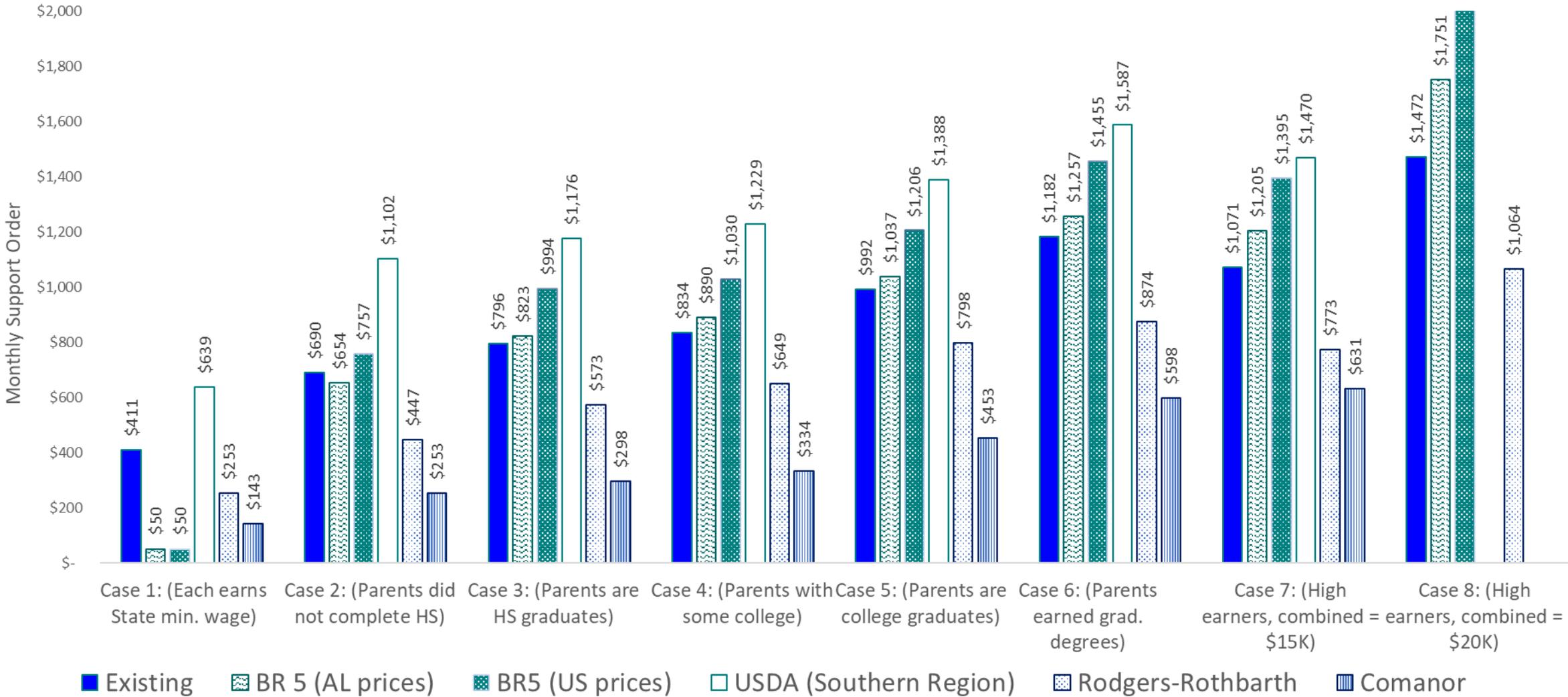
# Comparisons: One Child



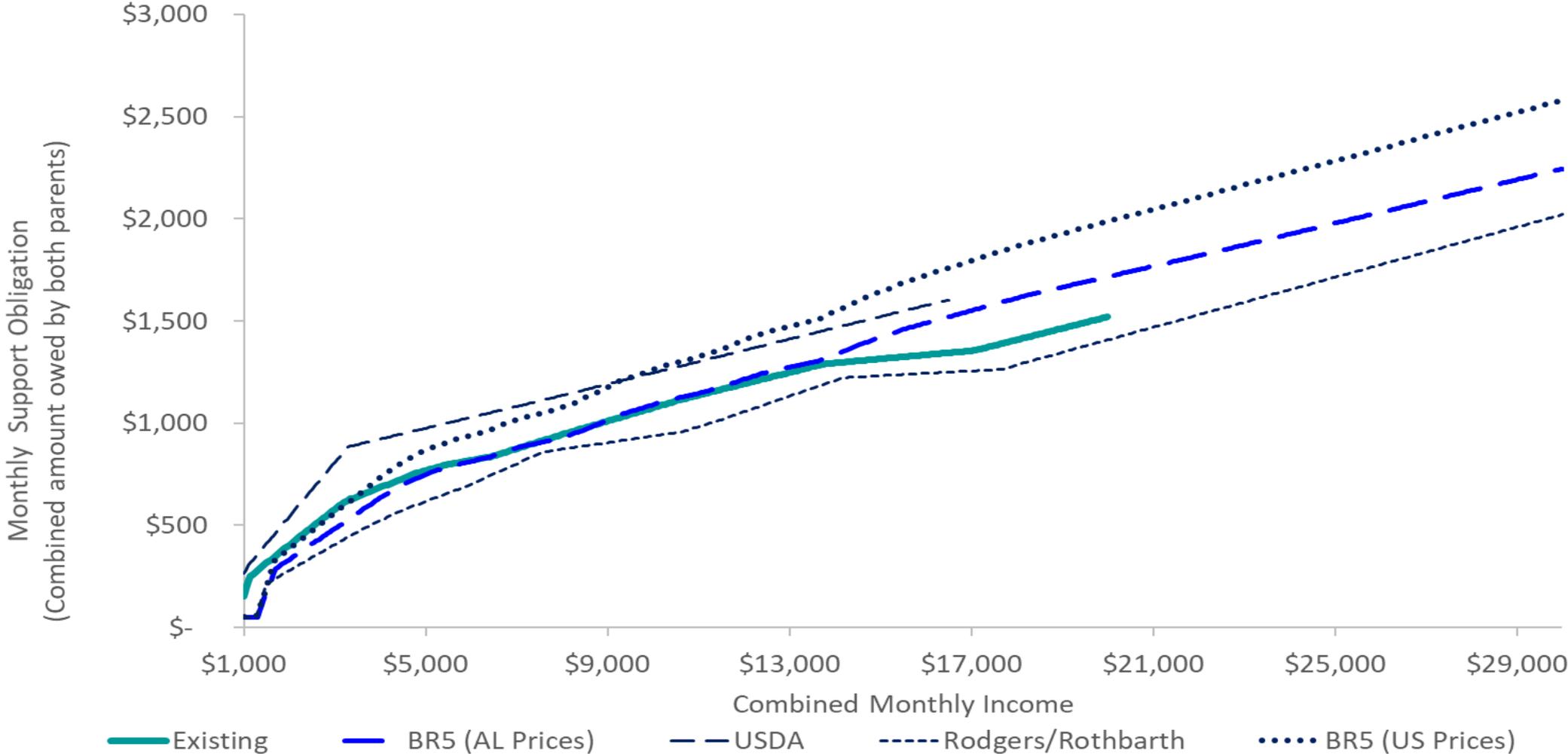
# Comparisons: Two Children



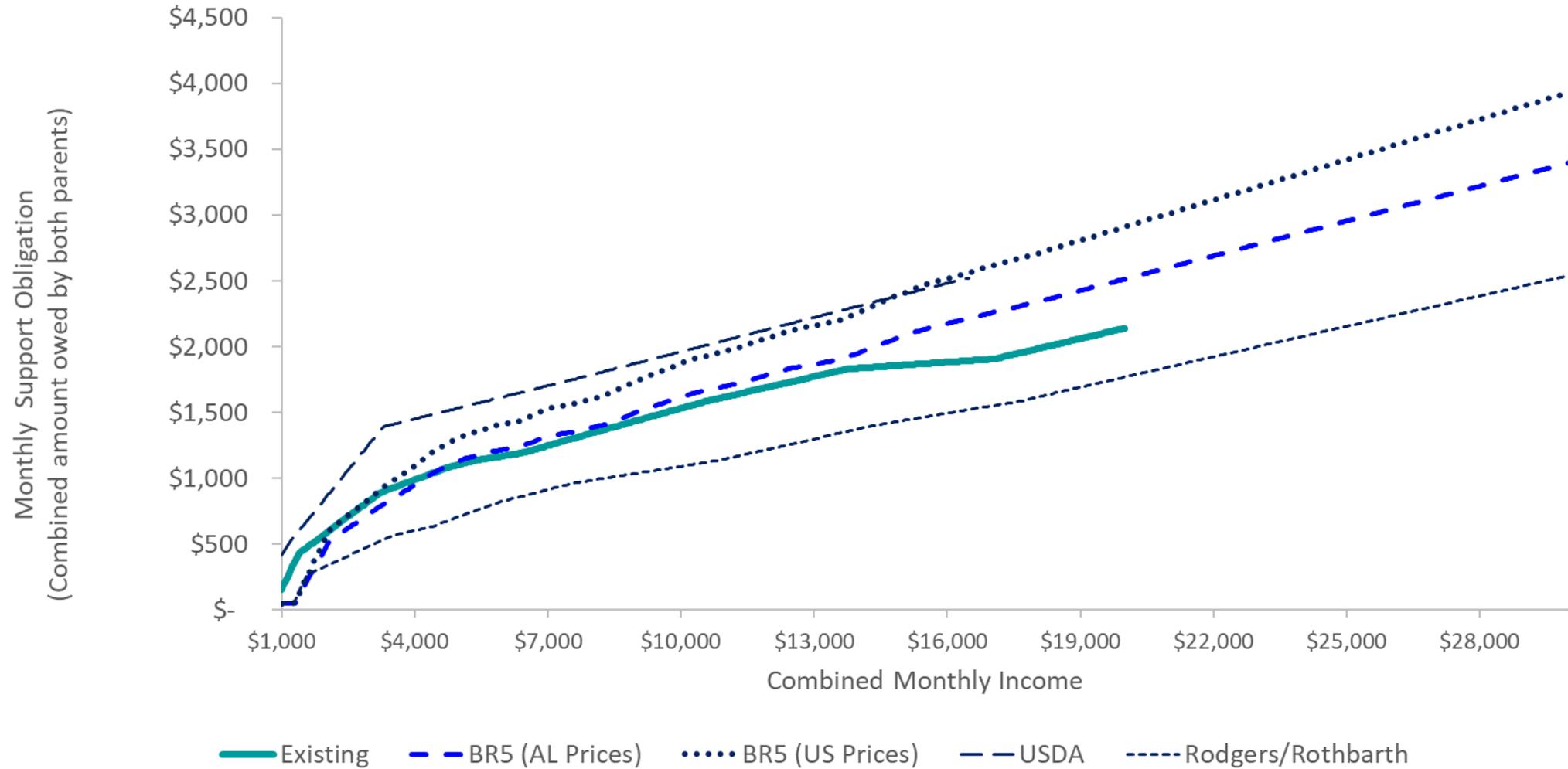
# Comparisons: Three Children



# Comparisons: One Child



# Comparisons: Two Children



# Lewin Assessment of Continuity of Expenditures Studies



# Studies of Child-Rearing Costs

## Minimum Needs

- Federal Poverty Guidelines (2020: \$1,067/mo for 1 person)
- Self-Sufficiency Standard (\$26,070/yr)

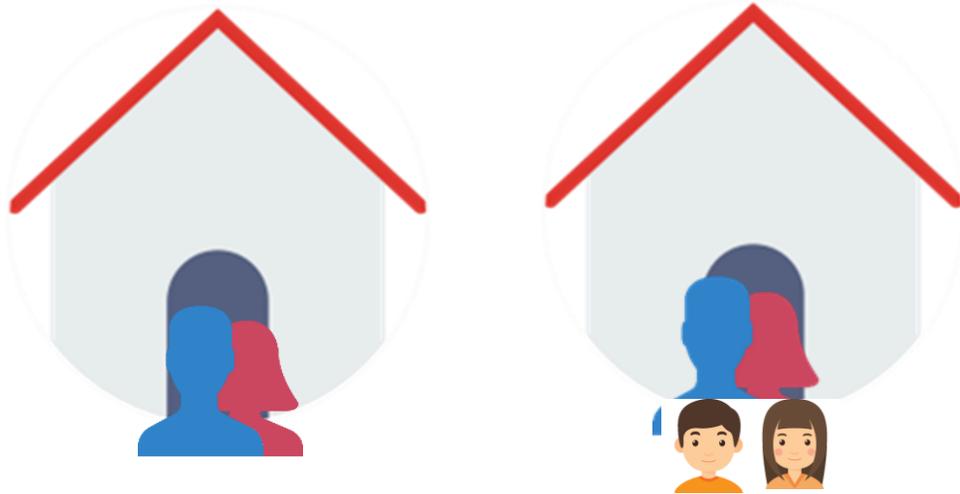
## “Continuity of Expenditures Studies”

- Most states use as the basis of their guidelines even if percentage of income guidelines
- E.g., Betson-Rothbarth (BR)

## Other Methods or Studies

- Studies of expenditures in single-parent households
- Comanor’s “Monetary method”

# Marginal Cost Method v. Monetary Method



Both compare expenditures using 2004-2009 CES between

- households without children to
- households with children

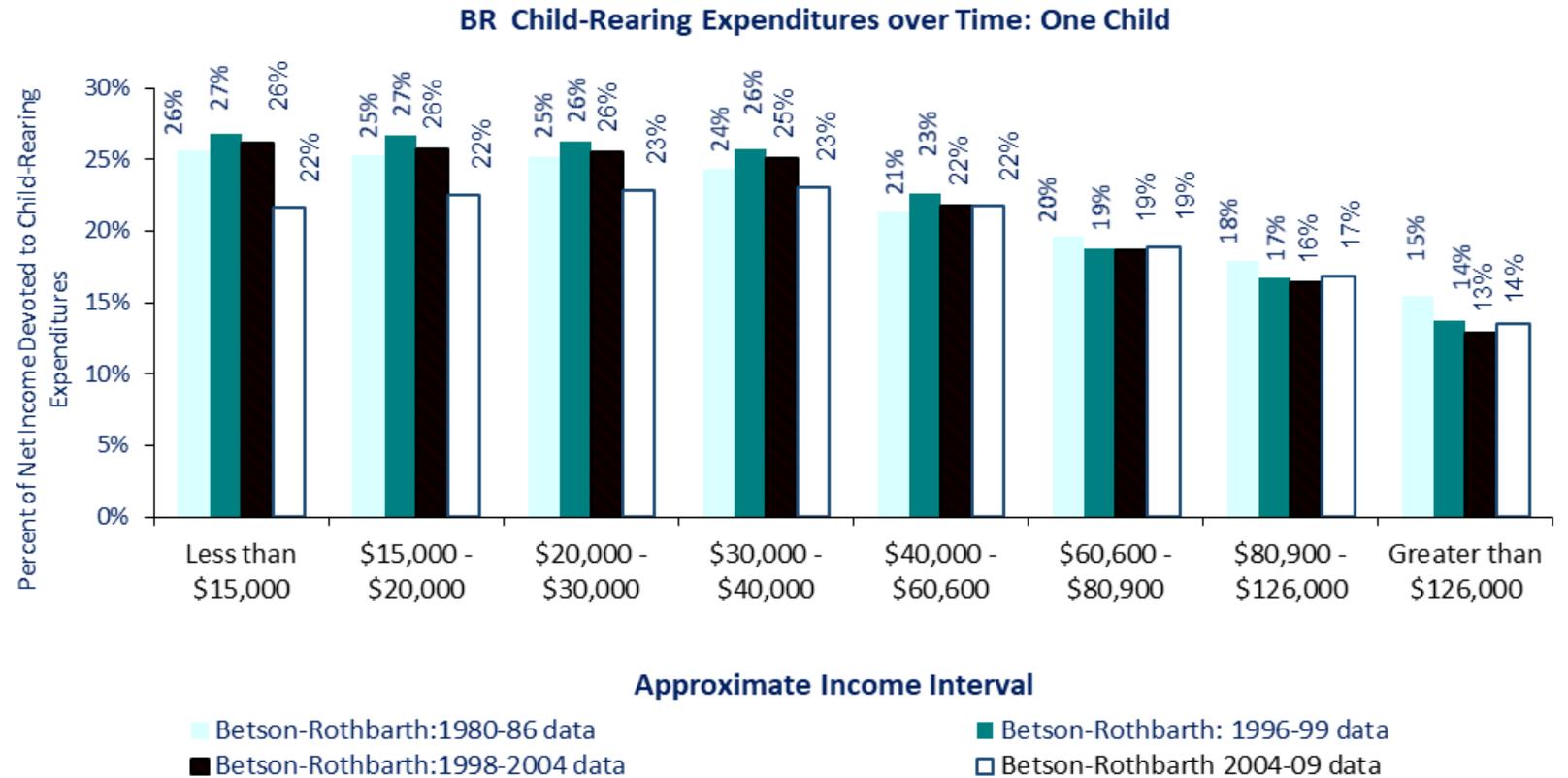
Betson-Rothbarth 4 <sup>th</sup> study (BR4)	Comanor, Sarro, and Rogers
Difference in expenditures for equally well-off households	Expenditures for specific expenditures categories
About 8,000 married couples of child-rearing age	About 19,000 households: 62% married & 38% headed by single person With children: 48% of married & 17% of single-person households
$\frac{TS_K - TS_0}{TS_K} = 1 - \left(\frac{2}{2+K}\right)^{1-\frac{\tau}{\lambda}}$ <p>where</p> $\ln(A[K, TS, X]) = \mu(X) + \tau \ln(2+K) + \lambda \ln\left(\frac{TS}{2+K}\right)$	$E_i = a + bY_i + c_1K_1 + c_2K_2 + c_3K_3 + dCA_i + \sum e_i X_{ij}$

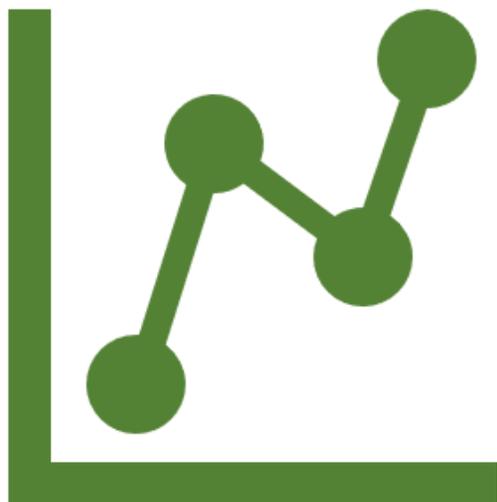
# Betson-Rothbarth Measurements

- Form the basis of most state guidelines
- BR4 has changes in data assumptions
  - Uses improved definition of income developed by Bureau of Labor Statistics
  - Uses expenditures-outlays rather than expenditures

## BR5

- 2014-2019 CES
- 16,000-20,000 households
- Sample selection variation (domestic partners, when older children are also in home, and annual v. quarterly expenditures)
- Same methodology
  - Examination of alternative model specifications





## Next Steps

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# Questions and Next Steps

- Questions
- Next Steps for CPR
  - More information about assumptions and data underlying schedule and options
  - More in-depth understanding of root of differences
    - Data changes in Consumer Expenditures Survey
      - Improved measure of income that affects low incomes
      - Use of “outlays” that affects higher incomes
      - Improved measure of taxes, hence after-tax income: this affects very high incomes
    - Use of price parity to adjust for AL prices
  - Comparisons to neighboring states
  - Obtain and analyze case file data